Energy Efficiency Question 13: *Has Michigan, and have other jurisdictions, imposed spending caps? If so, what has the experience been?*

Executive Summary

1. Four states, Michigan, Illinois, Pennsylvania, and Wisconsin, have formal spending, or cost, caps on energy efficiency program expenditures or limits on rate impacts established through state statute. Other states have budgets or charges approved by the state, typically the utility commission, that serve as an effective limit on spending but are not caps per se.
2. Spending caps are important and help balance short- and long-term benefits and costs associated with energy efficiency programs. Standards for energy efficiency programs and related spending caps should be designed in concert with one another and be informed by studies on the energy efficiency potential to ensure the standards are achievable. The standard should fit under an acceptable spending cap to limit short-term impacts on rates.

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1. **Four states, Illinois, Michigan, Pennsylvania, and Wisconsin, have formal spending caps on energy efficiency program expenditures or limits on rate impacts established through state statute. Other states have budgets or charges approved by the state that are not caps per se.**

   Michigan established a progressive spending cap that increased as the savings targets increased. As of 2012, the spending cap is at the ceiling imposed by statute, which is 2% of revenue for investment in electric energy efficiency and 2% of natural gas revenue for investment in natural gas efficiency.

   Pennsylvania's cap is also set at 2% of annual total revenues of the distribution utilities, although funding for low-income programs is not subject to this cap. Wisconsin also has a spending cap at 1.2% of revenues that is passed to the statewide program administrator; utilities are allowed to operate their own voluntary energy efficiency programs with approval from the regulator.

   Illinois has established a cap on rate increases, which indirectly functions as a cap on spending on energy efficiency programs in the state.

   Even though other states may not have caps per se, some place limits on overall expenditures and/or charges assessed to customers. This is typically done through program budget approval processes in states such as Iowa, Vermont, California, and Washington, or through approved monthly system benefits charges on customers' bills in states such as Massachusetts, Ohio, and Oregon. Agreements between regulators and utilities establish the appropriate amount of money to be spent on programs even though there is not a pre-established spending cap. Minnesota has a spending requirement for utilities to reach (and they exceed this amount), but no cap.

   Exhibit 1 includes a summary of approaches used in various states. A more detailed description of state requirements is included in Appendix 1 and Energy Efficiency Question 6.

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EXHIBIT 1. Summary of State Requirements on Energy Efficiency Spending

State	Formal spending cap	Other funding constraint or limit on rate impacts?
California	No	Yes – Utility commission approves utility budgets
Connecticut	No	Yes – Utility commission budget constraint
Illinois	No	Yes – Limit on rate increases in statute (0.5% of total per kWh charge and increasing to 2% in 2012; if rate impact reached, energy savings set at maximum savings that can be achieved within the rate impact limit)
Iowa	No	Yes – Utility commission considers rate impacts in approval of plans and budgets
Maine	No	Yes – Utility commission sets charge (0.145 cents/kWh)
Massachusetts	No	Yes – State sets charge (~0.25 cents/kWh)
Michigan	Yes (limited by statute to 2% of revenues)	Yes – Statutory limits on monthly surcharge per customer class
Minnesota	No	State requires spending *minimum* (this amount is exceeded)
New Jersey	No	State commission approves charge
New Mexico	No	Cap per customer set by utility commission (statutory cap was removed)
New York	No	Utility commission establishes collections and approves utility programs
Ohio	No	Yes – State sets charge; recovery requested by utilities after plans are approved
Oregon	No	3% charge paid by customers of major utilities
Pennsylvania	Yes (limited by statute to 2% of revenues)	Cap does not apply to low-income programs
Rhode Island	No	Approved by state
Vermont	No	Budgets set to achieve "all reasonably available, cost effective energy efficiency" (budget is highest in nation at ~ 5.64%)
Washington	No	No
Washington, D.C.	No	Yes – District sets charge
Wisconsin	Yes (limited by statute to 1.2% of revenue)	No

SOURCE: DSIREUSA.org; Pennsylvania Public Utility Commission website (www.puc.pa.gov).

2. Spending caps are important and help balance short and long-term benefits and costs associated with energy efficiency programs. Standards for energy efficiency programs and related spending caps should be designed in concert with one another and be informed by studies on the energy efficiency potential to ensure the standards are achievable. The standard should fit under an acceptable spending cap to limit short-term impacts on rates.

A spending cap, by definition, constrains available dollars for energy efficiency and thus plays a large role in the types of programs offered to customers to achieve savings targets. Spending caps are

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important for maintaining affordable rates in the near term. They can limit short-term rate impacts on customers from energy efficiency expenditures. Spending caps need to be developed in concert with the overall energy efficiency standard to ensure the standard is achievable given the available funding and timeframe for compliance. This is especially critical given that the cost to achieve savings is increasing over time in Michigan and nationally. The overall approach should allow the utility to achieve a cumulative reduction in energy use over a multi-year period with periodic updates to ensure that the cap is not exceeded. This would differ from the annual energy savings requirements under PA 295, and is discussed in more detail under Energy Efficiency Questions 7 and 22.

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Appendix 1 – Summary of State Budget or Spending Provisions for Energy Efficiency

California: The California Public Utilities Commission (CPUC) does not set spending caps. However, every year, the CPUC approves each utility's energy efficiency program plans that include program budgets.[1] For energy efficiency, these budgets total $228 million annually across four major IOUs.[2]

Connecticut: There are no explicit spending caps by percentage of revenue, but budget constraints from the DPUC have impacted energy efficiency program budgets. The DPUC has interpreted this mandate with an emphasis on capacity needs, and has not approved funding increases to achieve all cost-effective energy efficiency.[3]

Illinois: In Illinois, the rate increase for customers due to energy efficiency is limited by statute to 0.5% of the total "per kWh" charge in the first year and increasing to 2.0% in 2012.[4] If the rate impact cap is reached, the energy savings goals will be relaxed to the maximum savings that can be achieved within the rate impact cap.[5]

Iowa: Iowa does not have a spending cap, but the Iowa Utilities Board does consider ratepayer impact in the approval of the utilities' energy efficiency plans and budgets.[6]

Maine: The Maine Public Utilities Commission does not set spending caps. However, programs are funded by a set assessment of 0.145 cents per kilowatt-hour.[7] Through fiscal year 2011, the program budgets totaled approximately $70 million.[8]

Massachusetts: There is no spending cap established in Massachusetts. The electric energy efficiency and low-income programs are funded by a monthly system benefits charge on customers' electric bills equal to approximately $0 .0025/kWh. The distribution utilities collect the charges, which are transferred to an administration account. The Green Communities Act provides for additional funding to be allocated to energy efficiency programs. It specifically expands funding to include (1) proceeds from the Forward Capacity Market, (2) proceeds of not less than 80% of the Regional Greenhouse Gas Initiative (RGGI) auction,[9] and (3) an adjustment to distribution charges to the extent that it is necessary to procure all cost-effective energy efficiency and demand resources. Utilities have filed proposals for Energy Efficiency Reconciling Mechanisms that have been approved by the DPU.[10]

Michigan: Michigan does have a spending cap for each utility. In 2012 and beyond, spending for each utility is limited to 2.0% of total sales revenue for the two preceding years and each year thereafter.[11]

Minnesota: Minnesota does not have a spending cap; it has a spending requirement. Minnesota utilities are required to spend a percentage of gross operating revenue (0.5% gas, 1.5% electric, 2% for Xcel

[1] http://www.cpuc.ca.gov/NR/rdonlyres/A08D84B0-ECE4-463E-85F5-8C9E289340A7/0/D0909047.pdf
[2] http://www.dsireusa.org/incentives/incentive.cfm?Incentive_Code=CA05R&re=0&ee=0
[3] http://www.aikencolon.com/assets/images/pdfs/IECC/maryland/u113.pdf
[4] http://www.ilga.gov/legislation/publicacts/95/PDF/095-0481.pdf
[5] http://aceee.org/sector/state-policy/illinois.
[6] *See generally* http://aceee.org/sector/state-policy/iowa.
[7] DSIRE database.
[8] http://www.dsireusa.org/incentives/incentive.cfm?Incentive_Code=ME11R&re=0&ee=0
[9] The MA Department of Energy Resources (DOER) has indicated that it will allocate 100% of the RGGI funds to EE programs.
[10] http://aceee.org/energy-efficiency-sector/state-policy/massachusetts/193/all/191.
[11] http://aceee.org/sector/state-policy/michigan.

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Energy's electric utility). These spending thresholds are still in place, but since they were set, an EERS has been established.[12] In practice, these minimum spending requirements are often irrelevant, as utilities must spend more than these minimum percentages to achieve the 1.5% EERS.[13]

New Jersey: The Board of Public Utilities determines the amount to be collected for energy efficiency programs. Funding is collected as a charge imposed on all customers of New Jersey's seven investor-owned electric public utilities and gas public utilities.

New York: New York does not have specific parameters for rate impacts or budgets. The state's energy efficiency standard requires 15% reduction in electric use by 2015, and gas savings equivalent to 14.7% of projected use in 2020. The Public Service Commission establishes collections and approves utility programs.

Ohio: Ohio does not set spending caps. Instead, The Advanced Energy Fund—overseen by the Ohio Energy Resources Division—supports energy efficiency programs. This fund collects revenue through a utility rider (of $0.09 per billing period), which is universal for ratepayers of the four largest utilities in Ohio; industrial and commercial projects are the main beneficiary of this fund. Additionally, a service rider is charged per kWh to help support the state's Ohio Energy Loan Fund, which specifically provides energy efficiency upgrades to low-income residential customers.[14] Forfeitures from noncompliant utilities are also paid into the Advanced Energy Fund on a yearly basis.[15]

Oregon: The Oregon energy efficiency resource standard does not set any spending caps. Instead, the Energy Trust of Oregon is funded by a 3% public-purpose charge paid by the customers of the major utilities to support renewable energy and energy efficiency projects through January 1, 2026.

Pennsylvania: State law includes spending cap of 2% of the electric distribution utility's revenues (based on 2006 level). Excludes low-income programs from cap.

Rhode Island: Funding amounts are determined by utilities with approval from the state's Public Utility Commission. Rhode Island previously had specific amounts in statute to be collected from customers but 2011 legislation removed the surcharge amounts for electric and gas energy efficiency programs.

Vermont: There is no spending cap for energy efficiency in Vermont. Budgets are set to achieve all reasonably available, cost-effective energy efficiency.[16] When measured as a percentage of revenues, Vermont's budget for electric energy efficiency was the highest in the country at 5.64%.[17]

Washington: The Washington Utilities and Transportation Commission does set any spending cap as part of its energy efficiency standard, instead requiring utilities to set annual conservation targets.

Washington, D.C.: There is not a spending cap. The D.C. Public Service Commission is charged by legislation to create a Sustainable Energy Trust Fund and establishes the associated customer charges to fund energy efficiency and other efforts.

Wisconsin: Shortly after the Public Service Commission of Wisconsin established the EERS,[18] the state legislature limited funding to Focus on Energy (the statewide energy efficiency and renewables program)

[12] Next Generation Energy Act (NGEA), passed by the Minnesota Legislature in 2007 (Minnesota Statutes 2008 § 216B.241).
[13] http://www.aceee.org/energy-efficiency-sector/state-policy/minnesota/195/all/191.
[14] http://aceee.org/energy-efficiency-sector/state-policy/Ohio/207/all/191#Energy Efficiency Program Funding
[15] http://aceee.org/energy-efficiency-sector/state-policy/Ohio/207/all/191#Energy Efficiency Resource Standards
[16] http://aceee.org/sector/state-policy/vermont.
[17] http://aceee.org/files/pdf/fact-sheet/2012-spending-and-savings-tables.pdf
[18] Final order of the Quadrennial Planning Process issued on November 10, 2010.

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to 1.2% of revenues. This cap corresponded with a reduction in energy efficiency goals. The goals are now held at 0.75% of electric sales through 2013, rather than ramping up to 1.5% in 2013. Natural gas targets stay at 0.5% of sales over the same timeframe, rather than ramping up to 1.0%.[19]

Wisconsin also allows investor owned utilities (IOUs) to operate voluntary programs with funding in addition to 1.2% the state contributes to Focus on Energy. These voluntary programs need to be approved by the Public Service Commission and currently three IOUs operate some level of voluntary programs.[20] For example, Xcel Energy runs a residential rebate program for electric and gas customers, Madison Gas & Electric has a loan program for energy efficient upgrades for commercial customers, and Alliant Energy runs a loan program for commercial, industrial, agricultural, and institutional customers.[21]

[19] http://aceee.org/sector/state-policy/wisconsin.
[20] Ibid.
[21] http://www.dsireusa.org/incentives/index.cfm?re=0&ee=0&spv=0&st=0&srp=1&state=WI